

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4323

TREASURY DEPT WASHDC

INFO AMCONSUL BELFAST

AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

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UNCLAS SECTION 01 OF 02 LONDON 12281

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: NEDO ADOPTS GROWTH SCENARIO

REF: LONDON 10632

SUMMARY: MEETING A MONTH AFTER RECEIVING THE REPORTS AND RECOMMENDATIONS OF THE 39 SECTOR WORKING PARTIES (REFTEL) ON THE NEXT STAGE OF THE NEW INDUSTRIAL STRATEGY, THE COUNCIL OF THE NATIONAL ECONOMIC DEVELOPMENT ORGANIZATION (NEDO) HEARD GOVERNMENT REPRESENTATIVES DESCRIBE TWO POSSIBLE GROWTH SCENARIOS FOR THE REST OF THE DECADE. THE COUNCIL UNANIMOUSLY SUPPORTED THE MORE AMBITIOUS OF THE TWO AND THE WORK OF THE SECTOR GROUPS WILL GO FORWARD WITH THAT AS BACKGROUND. THE APPARENT RIFT BETWEEN UNCLASSIFIED

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INDUSTRY AND GOVERNMENT OVER THE PAYROLL TAX INCREASE

WAS LAID TO REST. THE TRADE UNION REPRESENTATIVES ADMITTED THE IMPORTANCE OF PROFITS AS A CONDITION FOR NEW INVESTMENT AND SAID THAT PROFITS WILL NO LONGER BE A DIRTY WORD IN THEIR VOCABULARY. END SUMMARY.

1. CHAIRED BY THE CHANCELLOR OF THE EXCHEQUER, THE NEDO COUNCIL MET AUGUST 4 TO DISCUSS A FOLLOW-UP PROGRAM ON THE NEXT STAGE OF THE NEW INDUSTRIAL STRATEGY. HM TREASURY PUT A PAPER BEFORE THE COUNCIL OUTLINING TWO POSSIBLE GROWTH PATTERNS COVERING THE PERIOD THROUGH 1980. THESE SCENARIOS WERE DEVELOPED IN ONE CASE ON THE BASIS OF EXTRAPOLATING FROM PREVIOUS ECONOMIC RECOVERIES AND, IN THE OTHER, ON THE BASIS OF A MAJOR EFFORT TO IMPLEMENT THE INVESTMENT AND PRODUCTIVITY GOALS OF THE NEW INDUSTRIAL STRATEGY. THE TWO SCENARIOS WERE SET AGAINST AN ANTICIPATED 11 PERCENT AVERAGE ANNUAL RATE OF GROWTH IN WORLD TRADE.

2. IN THE FIRST CASE, REAL GDP WOULD GROW AT AN AVERAGE RATE OF 4.5 PERCENT THROUGH THE END OF 1977 BEFORE DECLINING TO AN ANNUAL RATE AVERAGING 2.6 PERCENT IN 1978 AND 1979. RAPID GROWTH IN EXPORTS WOULD BE OFFSET LATER IN THE PERIOD AS RESOURCES WERE DRAINED AWAY BY RISING PERSONAL CONSUMPTION. BETWEEN 1975 AND 1979 MANUFACTURING PRODUCTION WOULD GROW BY 6 PERCENT A YEAR. UNEMPLOYMENT WOULD DECLINE, BUT WOULD REMAIN ABOVE PREVIOUS LEVELS AT CYCLICAL PEAKS.

3. THE SECOND CASE IS BASED ON ACHIEVING A RATE AND DISTRIBUTION OF REAL GROWTH CAPABLE OF REDUCING UNEMPLOYMENT TO ACCEPTABLE LEVELS (PERHAPS 700,000) WHILE MOVING TOWARD CURRENT ACCOUNT EQUILIBRIUM. THIS WOULD REQUIRE AN AVERAGE ANNUAL RATE OF GROWTH IN MANUFACTURING PRODUCTION OF 8 PERCENT TOGETHER WITH A MUCH LARGER IMPROVEMENT IN NET EXPORTS THAN IN THE FIRST CASE.

4. THE NEDO COUNCIL UNANIMOUSLY AGREED THAT THE SECOND

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STRATEGY (THE CHANCELLOR'S ECONOMIC MIRACLE) SHOULD FORM THE BACKGROUND AGAINST WHICH THE WORK IN THE 39 SECTOR GROUPS WOULD GO FORWARD. THEY WOULD HAVE TO FIND MEANS OF INCREASING THE GROWTH RATES IN MANY OF THE KEY SECTORS (CHEMICALS, METALS, ENGINEERING, ETC.) BY AS MUCH AS ONE-THIRD OVER THOSE REQUIRED TO ACHIEVE TRADITIONAL RATES OF GROWTH.

THE UNANIMITY ACHIEVED BY THE GOVERNMENT, INDUSTRY AND UNION REPRESENTATIVES OWED MUCH TO CBI PRESIDENT LORD

ENCOURAGING INDUSTRY TO MOVE UP PLANNED INVESTMENT WHICH HE HAD SHELVED AFTER HEARING OF THE CHANCELLOR'S PLANNED 2 PERCENTAGE POINT PAYROLL TAX INCREASE. IN ADDITION,
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THE REPRESENTATIVES OF THE TUC STATED THAT PROFIT WAS NO LONGER A DIRTY WORD. IT WAS CLEAR TO THEM THAT WITHOUT PROFITS THERE WOULD BE LITTLE INVESTMENT.

5. COMMENT. THE CONTINUING MOMENTUM OF THE NEW INDUSTRIAL STRATEGY EXERCISE IS THE MOST IMPORTANT RESULT OF THIS NEDO MEETING. THE NEW, BUT STILL TENUOUS RELATIONSHIP AMONG GOVERNMENT, LABOR AND INDUSTRY HAS SURVIVED OVER A YEAR OF SEVERE STRAIN WITHOUT COLLAPSING AS EACH OF THE GROUPS SHOWS SIGNS OF DEVELOPING A VESTED INTEREST IN

ACHIEVING THE GOAL OF A MORE COMPETITIVE BRITAIN.

IT IS OBVIOUS THAT IN APPROVING A GROWTH SCENARIO THAT IS OVER AMBITIOUS ON ITS FACE. NEDO CAN BE ACCUSED OF A LACK OF REALISM. HOWEVER, THE 1980 TARGET DATE AND NUMBERS LIKE AVERAGE ANNUAL EXPORT GROWTH AND MANUFACTURING OUTPUT GROWTH OF 12 AND 8 PERCENT RESPECTIVELY ARE A REFLECTION OF THE HIGH LEVEL OF RHETORIC WHICH HAS BEEN ASSOCIATED WITH THE EXERCISE FROM THE OUTSET. THIS HAS BEEN UNAVOIDABLE GIVEN THE DEGREE OF SALESMANSHIP NEEDED TO PUT THE EXERCISE ACROSS. WHILE THE U.K. ECONOMY IS UNLIKELY TO ACHIEVE THESE SORTS OF GROWTH RATES, IT IS FAIR TO SAY THAT WITH INDUSTRY, LABOR, AND GOVERNMENT STRIVING TOWARD THEM, THE U.K. ECONOMY WILL BE CLOSER TO ITS GOAL BY 1980 THAN WOULD OTHERWISE HAVE BEEN THE CASE.

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